DOCUMENT RESUME

ED 204 860 EA 013 777

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TITLE Report of the Expanded Tax Base Study.
INSTITUTION New York State Education Dept., Albany.
PUB DATE Jan 81
NOTE 41p.; Prepared for the New York State Task Force on Equity and Excellence in Education.

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Educational Finance; *Equalization Aid; *Finance Reform; Fiscal Capacity; Foundation Programs; Property Taxes; School Taxes; *State Aid
IDENTIFIERS *New York; School District Wealth; *Tax Bases

ABSTRACT

The partial financing of New York State's public schools with a state-mandated tax coupled with state aid based upon county or regional wealth rather than local district wealth would provide greater equalization of both revenues and expenditures of school districts than does the present law. A comparable increase in state aid appropriations under district formulas of the present type would fail to provide such improvements in equalization. Of three alternative plans examined by an expanded tax base study group, none would completely eliminate the fiscal disadvantages of poorer districts, but all would provide for substantial improvements. The greatest equalization would occur under a plan providing a statewide foundation program based on a state-mandated property tax. This report presents an analysis of the financial equity problem in New York, a summary of efforts to provide equitable education in the state during the last two centuries, a description of the methodology used in studying the possible effects of tax base expansion, and a discussion of the findings concerning each of the three alternative plans explored. (Author/PGD)

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REPORT OF THE EXPANDED TAX BASE STUDY

PREPARED BY THE
NEW YORK STATE EDUCATION DEPARTMENT
FOR THE
NEW YORK STATE TASK FORCE ON EQUITY AND EXCELLENCE IN EDUCATION

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JANUARY 1981

EA 013 777

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INTRODUCTION

Over the past half-century many study groups have recommended using a political or geographical unit larger than the school district as a base for school property taxation. This has been suggested as a way of equalizing the taxation and funding for education among New York State's school districts. To implement this approach to equalization, a state includes in its school finance provisions a means of equalizing the tax bases of school districts by collecting and distributing a part of school property taxes on a county or regional basis.

Such an approach has several advantages. It reduces the basic cause of inequalities--the unequal tax-raising capacities among school districts--at the point where the taxes are actually raised. It uses part of the property-tax base of each county or region to support the education of all children in the county or region rather than using all the taxes on the property in each school district only to support the education of children in that school district. It could achieve the same degree of equalization at lower cost to the State than would adding dollars to formulas of the present type.

The Problem

The fundamental school-finance equity problem which the State must overcome is of its own creation. The State established independent local school districts to operate schools and made the property tax their primary source of local revenues. Thus, the State created by law the great variation in the tax bases and revenues available to school districts to support the education of the children in each district. In order to correct the disparities it created, the State has provided its share of school costs in a manner aimed at reducing the great differences in revenues that result from districts' total dependence on local property tax bases. The State recognizes that differences in tax-raising ability exist, and it allows them to continue. It seeks to reduce their effect with state aid which supplements the greatly differing local revenues.

The Expanded Tax Base Approach

There is another way to equalize school district funding. Instead of providing State funds to supplement the unequal local tax bases, the State could change the tax system so as to equalize the tax bases. The State used such an approach with good results duing the nineteenth century but has not done so in the twentieth, despite the recommendations made by study commissions and special reports since 1921. Arvid Burke (1978), for example, in a study done for the State Education Department, stated that, "If school district taxing power is not transferred to a unit no smaller than the county, there is no hope of finding a workable equalization formula combining State and local support".

The extreme form of this approach is full State funding, which would support all school costs through uniform statewide taxes but would remove local control over the amounts to be expended. However, it is not necessary to raise all school taxes on a statewide basis as would be done under full State funding. A substantial degree of equalization, both of expenditures per pupil and of tax burdens, could be accomplished by raising part of the portion of school costs now supported by the local property tax through a county, regional, or statewide tax. A system which equalizes revenues partly at the point of local taxation rather than compensating for unequal local revenues solely by tinkering with individual district state aid formulas obviates the need for devices such as flat grants, save harmless and aid caps.

This paper compares the potential effects, for New York State, of school finance programs making use of such county, regional, or statewide property taxes with the continued provision of state aid under an equalization formula of the present type.

HISTORICAL BACKGROUND

New York has experienced four keystone periods in seeking to provide equality of educational opportunity and the apppropriate system of school finance. During each period, recognition existed of the problem of unequal tax bases of districts and of the possibility of dealing directly with this problem. Throughout the twentieth century the State has chosen to leave the unequal tax bases in place and has sought to achieve equal opportunity entirely through providing state aid to supplement the unequal local revenues.

Creation of a Public School System: The Roots of Present Inequality, 1795-1849

One of the first tasks facing New York State was the creation of a system of public education. A goal of the emerging system was equality of educational opportunity. Its premises were that education would be provided and controlled locally and that education would be a fiscal responsibility of both the State and the local community.

The desire for equal educational opportunity was most clearly expressed in the Common School Law (Chapter 242 of the Laws of 1812), which established a formal system of public education in the State. Eventually over 12,000 school districts were created and almost every child in the State was within walking distance of a public school.

New York first appropriated State funds for public education in 1795 (Chapter 75 of the Laws of 1795). The money was distributed to counties based on representation in the legislature, to towns according to population, and to schools according to days of instruction. To receive the State apportionment a town was required to raise in taxes, one-half of the State's grant. The original state aid legislation, therefore, provided for local and State support of education to be based on units larger than the school district.

The Common School Law provided that the major means of State fiscal support would be the interest from a permanent State Common School Fund. Towns were required to collect a tax which would equal the revenue provided by the State. Districts were given limited taxing power for the maintenance of the schoolhouse and could collect rate bills or tuition from parents of students.

Although the Common School Law improved equality of opportunity by greatly expanding the number of public schools, the law contained provisions which fostered inequality not only in the nineteenth century, but also contributed to present inequalities in New York State school finance. State and town support were linked to the stable and inelastic revenues of the Common School Fund, therefore, the importance of these revenues declined as the expenditures of districts increased. Districts were small in size and the precedent of districts levying taxes had been established.

Missed Opportunities To Equalize Tax Capacity, 1849-1920

Between 1849 and 1920 several opportunities existed for the State to equalize the tax capacity of districts. However, none of the opportunities was fully seized and equalization of the tax bases of districts did not occur.

During the 1840's the free school movement developed which advocated the ending of rate bills. The Free School Act (Chapter 140 of the Laws of 1849) provided for a county tax in addition to the town tax as a revenue for districts. Each of the local taxes was to raise revenue equal to the amount of aid provided by the State. Districts were authorized to levy taxes to meet the difference between their costs of schools and the revenues from town, county and State sources. The granting of unlimited taxing power resulted in wide differences in the ability of districts to raise revenues.

In 1851 the Legislature attempted to lessen the effects of unlimited district taxing power by introducing a specific State tax in support of schools (Chapter 151 of the Laws of 1851). The $800,000 in state aid generated by the State property tax represented a great increase in state aid and resulted in 52 percent of school expenditures in 1852-53 being financed by the State. This was perhaps the year in which there were the smallest disparities in the levels of funding of school districts.

Although the State property tax remained a fixture of New York school finance until 1901, its importance declined as the revenue generated by the tax increased at a slower rate than expenditures. The rate at which the tax was imposed was held relatively constant.

The 1851 law eliminated county and town school taxes but continued the practice of district taxation. According to Burke (1978) the variation in wealth among counties was five to one and among towns the ratio was ten to one. However, the variation in school district wealth was over one thousand to one. The State insured that equalization of district resources would not occur by collecting local property taxes only at the district level rather than the town or county level.

The primary method for distributing State funds to schools beginning in 1864 was the quota system, that is, districts received aid based on specific educational or fiscal goals of the State. For example, quotas were developed for supervision, teachers and assessed property wealth of districts. The quotas did provide some equalization in that some aid was based on attendance, teachers and assessed valuation. Equalization efforts were hindered by the low level of state aid as the State share steadily declined, reaching approximately 8 percent of school revenues in 1920. Quota aids were often distributed without consideration of the wealth and educational need of the district. Requiring matching grants resulted in the aids tending to be given to rich districts which could most easily afford to match the State funds.

The centralization of small districts was recognized as a method by which equality of educational opportunity could be promoted. Two forms of centralization that occurred were the Union Free School Law (Chapter 433 of the Laws of 1853) and the centralization of New York City districts.

The Union Free Law allowed common school districts to combine so as to be able to provide a high school education. If the Union Free system were widely observed, resource inequities would have been lessened because of the broader tax bases of large districts. However, a vast majority of the common districts chose not to combine, and the union districts were often small in size. Many of the Union Free districts which were created were located in what were to become wealthy suburban districts, often small by modern standards, and have remained as a major resource inequality (Burke, 1978).

In 1897, over 350 school districts were combined to form one educational system in New York City. "Virtually no notice has been taken of the fact that the city consolidation represented one of the . . . great advances in equalization made during the nineteenth century" (Burke, 1978, 13, italics in original text). New York City was responsible for equalizing the centralized system without any additional cost to the State.

In 1917 the State authorized the creation of a school system with the town as source of fiscal support and governance for school districts (Chapter 328 of the Laws of 1917). However, this law never took effect as it was repealed in 1918 (Chapter 199 of the Laws of 1918).

By the 1920's New York's system of school finance had disintegrated into a complex distribution of state aid having little to do with equity. Strayer and Haig (1923) said, "The present arrangements are the product of a long history of piecemeal legislation. The result is chaos." Financing of schools in New York during the early 1920's was characterized by huge resource inequalities, wide disparity in school district taxing powers, tax-rates, and intolerable differences of educational opportunity.

The Crusade for Equity Begins, 1920-61

In the early 1920's concern was expressed about New York's system of school finance. The State was urged to increase its commitment to equalization. The Educational Finance Inquiry Commission recommended that the local fiscal support of schools be based upon a unit larger than a school district.

Strayer and Haig (1923) in a report issued by the Educational Finance Inquiry Commission suggested funding education on a county basis. They argued that by increasing the size of the unit of fiscal support, rich territory tends to be merged with poor territory and extreme differences in the economic resources of the units tend to be reduced and the problem of apportioning funds for the equalization of educational opportunities, therefore, simplified. The State, however, attempted to equalize expenditures across districts, which resulted in substantial increases in state aid and some reduction of expenditure discrepancies but did not achieve equity.

Strayer and Haig's approach recommended by the Educational Finance Inquiry Commission incorporated both income and property in the determination of wealth of counties, allowed for the recapture of local funds, and guaranteed a foundation program at the State average per pupil expenditure. They estimated state aid would increase from 21 to 22.5 percent of educational expenditures, if their suggestions were implemented.

Paul Mort (1924) in a study for the Joint Committee on Retrenchment and Taxation agreed that the whole purpose of state aid demanded the abandonment of the antiquated system of local organization. There were then over 10,000 school districts. Taxing and administrative power should be vested in units large enough to produce conditions at least as efficient as in the villages and sound arguments existed in support of such large units as the county.

Mort based his analysis on then existing supervisory districts. Such an approach would have reduced the number of districts to be equalized from over 10,000 to approximately 335. Variations in wealth would have been reduced to a ratio of 34 to 1 from approximately 200 to 1. Mort estimated his approach would require an increase of $23 million in state aid, which was then an increase of 68 percent.

The Cole Rice Law (Chapter 675 of the Laws of 1925) began the State's formal commitment to fiscal equity. By providing a $10 million increase in aid the State guaranteed a foundation or minimum program of $1,200 per elementary teacher and $1,600 per secondary teacher (approximately $45 per pupil) to all districts maintaining a high school or having at least five teachers. Thus, the State decided to equalize across school districts rather than a larger unit as recommended by Strayer, Haig and Mort.

The Friedsam Commission (1926) created to address the problems of cities with a tax limitation problem proposed raising the foundation level to $1,500 per elementary teacher and $1,900 per secondary teacher over four years. The Commission estimated such a program would require additional state aid of $34.8 million. The Friedsam recommendations were enacted and resulted in improved equalization similar to Mort's 1924 proposal but at a greater cost to the State.

After World War II, equalization was promoted by the State's efforts to encourage the centralization of school districts. Centralization resulted in the number of districts declining drastically from over 10,000 to approximately 700. Centralization did much to promote equality of educational opportunity and equalize the fiscal resources of districts. However, the centralization process often resulted in relatively poor common and union free districts becoming centralized, while small rich districts chose to remain independent. The centralization of districts, therefore, has not resulted in as much achievement of equity as was hoped.

With the acceptance of the foundation formula in 1925, the State attempted to equalize across districts. However, the continued existence of inequities between districts became obvious to policy makers. The State's solution was to create special formulas designed to address individual equity problems. The result of this approach was the existence of over 25 formulas for the 1961-62 school year.

Renewed State Determination To Provide Equity, 1961-Present

Since 1962 the State has grown increasingly concerned about the equitable distribution of state aid. The State's concern can be demonstrated by the number of special commissions and task forces called into existence to examine the State funding of public schools. The Diefendorf Committee, Fleischmann Commission, Joint Task Force on State Aid, the Governor's Task Force on State Aid, and the Special Task Force on Equity and Excellence in Education have all struggled with the problems associated with distributing state aid in a manner that best promotes equal educational opportunity and equity. All but the Diefendorf Committee existed during the 1970's. The only other decade with a similar concern for the examination of state aid and equity was the 1920's. Each of the special bodies examined broadening the tax base of districts.

The State adopted various techniques in the 1960's and 1970's designed to improve equity. However, these efforts have not yet provided the degree of equity needed.

Many proponents of equity in the 1960's and 1970's recommended the partial financing of schools at a unit larger than the school district. Most of the suggestions advanced by such proponents have sought to equalize at the regional or State level.

The Diefendorf Committee (1961-63). The Diefendorf Committee is most often remembered for its recommendation that the State should distribute aid by a shared-cost formula rather than by a foundation program. However, the Committee (1963) also recommended that counties outside of New York City collect a sales tax not to exceed 1 percent, at the option of school districts. The revenue from the sales tax would be distributed to the districts in the county according to pupil attendance.

The committee urged consideration be given to changing the property taxing power of districts. It suggested three possible changes:

1. Provide for the joint imposition of school property taxes by counties or combinations of counties.

2. Provide for such joint imposition of all school property taxes except those on residential property.

3. Provide the opportunity for the joint imposition of a portion of the school property tax.

All three suggestions were viewed by the Committee as helping to reduce extreme inequalities of taxpaying ability and tax rates, equalizing tax burdens among school districts and enabling all districts to have a better balanced tax base.

State Education Department (1968). The State Education Department (Polley and Calvin, 1968) conducted a study to determine how a possible regional approach to taxation might affect taxation and aid. The study examined the Capitol District area (the counties of Albany, Rensselaer, Saratoga and Schenectady). Polley and Calvin concluded that the regional financing of education could be made fiscally attractive at a relatively small increased cost to the State. A wide disparity in tax rates of districts in the Capitol District could be reduced with almost all but the wealthiest districts having lower tax rates.

Project 1990. Samter (1971), in a study conducted for Project 1990 dealing with the effects of a regional distribution of state aid and local revenues on the Niagara frontier, found that regionalization would have reduced disparity in fiscal ability. He concluded that regional cooperation was a potentially useful instrument to counter problems of unequal school support.

Monroe County Educational Planning Committee (1971). Concerned about the failure in providing fiscal equity and equality of educational opportunity within Monroe County, the Monroe County Educational Planning Committee proposed the creation of an educational federation composed of the 18 school districts in Monroe County. The federation was to be funded by a county tax.

Fleischmann Commission (1972). The Fleischmann Commission recommended that full State funding for school districts be adopted. All districts would have a uniform expenditure level and tax rate. Local option for a suppplementary tax levy would not be allowed. Although aware its recommendation would not be received with enthusiasm, the Commission believed that full State funding was the best method to achieve equity among school districts at an affordable cost to the State.

Gould Plan (1972). In 1972, Howard Gould developed a plan for distributing aid through the existing Boards of Cooperative Educational Services (BOCES). The plan would replace all state aid programs except for school lunch, transportation and building aids.

The plan suggested the State equalize resources for 55 regions outside of New York City. The 55 regions would be the 46 existing BOCES districts and nine city districts with more than 10,000 pupils. A large city district would be given the option of receiving aid individually or as a member of its BOCES region. New York City was not included in the general equalization program and would receive aid equal to the average for the rest of the State.

Gould believed the elimination of formula adjustments related to size and other factors combined with the termination of special and categorical aids would remove existing disparities that violated the principle of equalization.

A possible weakness in the Gould approach is that it did not specify how regional aid would be distributed to individual districts. The report indicated the allocation of aid to individual districts was a decision to be made by the BOCES board.

Educational Conference Board (1972). The New York State Educational Conference Board in 1972 proposed a State school property tax of 1 mill be established for the 1973-74 school year. The tax would be collected by the counties. County revenue from the tax would be equalized with State revenues. The revenue from the tax and state aid would be distributed with a uniform per pupil grant to the school districts. It was recommended that the plan provide a grant of approximately $85 per pupil to every district. The plan was seen as having a substantial equalizing effect. The plan proposed that the 1 mill levy be increased in the future.

Equalized Effort Plan (1973). In 1973 T. Norman Hurd presented an Equalized Effort Plan to Governor Rockefeller. The plan with the exception of transportation and building aids combined all state aid into a single formula. For aid purposes only, all districts were grouped into regions based primarily on existing BOCES. The aid districts would receive was related to the tax effort a local district was willing to make. The plan suggested relating district aid with compliance to established quality standards.

The Equalized Effort Plan was viewed by its developers as beginning to apply the concept of equality of educational expenditures and as facilitating the State's compliance with possible court mandates. The proposal provided disincentives for high expenditures, which would be more difficult for high wealth districts. It combined local control with a regional concept. Aid to a district was related to the regional average wealth as well as the State average.

Task Force on State Aid (1973-74). The Task Force, consisting of appointees of the Governor, the Board of Regents, and the legislative leadership, explored several alternative approaches to provide greater equalization. Two of the alternatives it considered attempted to equalize at a unit larger than the school district.

One alternative was to percentage equalize by county. The Task Force found that county base for equalization substantially reduced the variation in pupil wealth. The formula tested did not include a ceiling on aidable expenditures.

Although equalization in terms of aid occurred, the largest increases went to counties with above average expenditures as is characteristic of percentage equalizing formulas.

A second alternative considered by the Task Force was based upon the Gould Plan. The Task Force did not consider that plan per se but found that an area approach provided certain advantages, if its use was optional by districts.

Regional Equalization: Options and Issues (1976). Joan Scheuer (1976) studied regional equalization as a possible reform of New York's school finance system. She concluded that previous studies suggested considerable equalization of fiscal capacity among school districts could be achieved. Although local funds would have borne a share of the cost of reform, State funds would have been needed to cushion the redistributional effect of the plans.

Educational Conference Board. Since 1976 the New York State Educational Conference Board has advanced three proposals addressing the need to equalize the tax base of districts. The Conference Board recommended a uniform statewide property tax as a means of achieving equity.

A Special Committee of the Educational Conference Board on State Aid, 1976, proposed a state aid plan addressing the need to equalize the tax bases of districts. The Special Committee proposed that a uniform State tax be levied on property. The revenue from the tax would be distributed to districts on an equal per pupil basis.

The Conference Board's state aid proposals for 1977-78 and 1978-79 continued to recommend a uniform State property tax. The recommended full value tax rate was $13 for the 1977-78 school year and $10 for the 1978-79 school year. The revenue from the tax would remain in the district and was a factor in the formula awarding state aid. Although the proposals were limited in their effects by limitations on aid increases and the continuation of save harmless, they recognized that greater equity among districts can be achieved if the fiscal resources of a unit larger than the district are shared.

Conference of Large City Boards of Education. The Conference of Large City Boards of Education has made several recommendations concerning a regional or State approach to school district taxation. Use of a State property tax for schools was proposed in 1976, 1977, and 1978. In addition, the Conference has recommended State or regional financing of non-instructional services such as transportation, construction, breakfast programs, and maintenance. Such financing would equally distribute the tax burden of providing such services over each region.

State Education Department (1978). The State Education Department (Furno and Gaughan, 1978) studied the equalizing effects of a statewide property tax. The study looked at the effects of allowing school districts to impose a local levy in addition to a uniform State tax and attempted to estimate the effects of such a

plan on the expenditure gap between high and low spending districts. They found that a 1 mill tax would not lessen the expenditure gap since the tax rate required by wealthy districts to replace the revenue loss would not be burdensome. However, a tax of 5 mills would reduce the expenditure level gap and a tax of 10 mills would have a substantial effect on high expenditure districts. The study concluded that a phased-in State property tax would result in a definite but gradual closing of the expenditure gap.

Division of the Budget (1978). The Division of the Budget studied a regional approach to school finance using existing BOCES boundaries to define the tax regions. It found that the variation in full value property per pupil was greatly reduced with the use of a regional tax base. The range in average regional expenditures per pupil was also substantially less than the range in district expenditures per pupil.

The study found that if the 1978-79 operating aid formula were used with aid based on regional rather than district wealth and paid on an equal basis to all districts in each region, $55 million less aid would have been distributed. The study then changed Tier II aid to $1,600, an increase of $100, and recalculated the aid due. The result was approximately $64 million more in aid.

Therefore, if the Division of the Budget's study model had been used for distributing aid in the 1978-79 school year, the State could have equalized districts at $1,600 rather than $1,500 with an increase in state aid of only approximately $9 million. The study concluded that the model was not developed enough to warrant immediate legislative consideration but the results justified continued investigation of this approach.

Governor Carey's Budget Proposal (1979). Governor Carey in the 1979 Executive Budget Proposal recommended that the state aid provided districts be partially based on the relationship of a district's wealth to its regional average, if the regional average exceeded the State average. While the proposal did not suggest a regional tax, it had the effect of distributing aid in the New York City metropolitan area as if a one dollar regional property tax had been collected and distributed on an equal per pupil basis. For the rest of the State the proposal had the same effect as if a statewide one dollar property tax had been collected and distributed on an equal per pupil basis to all districts.

METHODOLOGY

Purpose

The purpose of the Study was to investigate and describe the effects of a partial financing of schools with a State mandated property tax with its receipts distributed within the county or region where raised.

Three possible versions of such plans were studied. All of the plans studied used present law data for 1980-81 and could have been provided in 1980-81 at the same cost to the State as the operating aid actually provided. The effect of each plan on city school districts with a projected 1980-81 tax limit problem was investigated.

Data Collection

The Study collected data from the files and records of the State Education Department. Data collected included measures of wealth, i.e., 1978 full value and 1979-80 pupil counts, and the property and non-property levy of districts for the 1979-80 school year. The 1979-80 pupil counts used were estimated by school districts.

The Study used the results of a 1979 State Education Department survey, which provided for the first time the enrollment by county of residence for districts located in more than one county. Weighted pupil counts of districts were distributed across counties based upon the 1979 enrollment.

Data Analysis

Data were analyzed by county and State planning region levels. New York City was treated as one county or region in the analyses.

Wealth was determined by dividing the full value of a county or region by the estimated total aidable pupil units for operating aid payment in 1980-81 (TAPU)..

The effects of each plan were analyzed to determine the degree of equalization in the revenue raising ability of districts that would occur under each plan. Equalization was measured by the change in the expenditure level supported by state aid and the change in the tax rate required by districts to support the new expenditure level under present law and the plan. Analysis of the effects of the plans was done on selected districts. Statewide effects were analyzed on the districts of State average wealth and at the 5th, 10th, 25th, 75th, 90th and 95th percentile's of wealth.

The results of the county and regional analyses, although not identical, were similar. Therefore, to avoid duplication, most of the analyses presented in this report were done at the county level.

The effects of the plans on city school districts with a projected tax limit problem for 1980-81 were then examined. The districts were selected on the basis of data submitted to the State Education Department in the spring of 1980. The district tax rates required to fund the 1980-81 estimated expenditures under selected plans were compared to the districts' tax limits.

Limitations

The Study as conducted possessed several limitations. The limitations were not crucial from a research perspective but would be important if legislation were to be proposed.

Data. The 1979 State Education Department survey of enrollments by county of residence provided important data previously unavailable. However, long-range trends regarding enrollments by residence were not available. Thus errors which may have been made by some districts in completing the new form were not easily ascertained and may have been overlooked.

Audited data for 1979-80 based on State aid reports were not used by the Study because of time limitations. Therefore, the Study used district estimated 1979-80 pupil counts and levies. The pupil counts would have been slightly lower if data from 1979-80 State aid reports were used.

The use of 1978 full value to estimate tax rates resulted in an inflation of the actual 1980-81 tax rates of districts.

The use of Total Aidable Pupil Units for payment of 1980-81 operating aid provided a slightly different estimate of wealth then would been obtained if the Total Wealth Pupil Units count in present law had been utilized.

The wealth of counties or regions might be affected by the eventual resolution of the Hellerstein case which ruled that property should be assessed at 100 percent of full value.

Other. The Study's purpose was to investigate and describe the independent effects of plans involving an expanded tax base. For this reason such plans were considered in the context of pupil counts, wealth measures, etc., as used in present law. The effects of changing present law only by establishing such changes in tax base were studied and the "pure" effects of such changes from present law are reported.

Varying such plans through the use of revised pupil counts and weightings, wealth measures, a separate percentage equalized second tier, price adjustments, and other factors under consideration by the Task Force was possible but outside the scope of this Study.

FINDINGS

Present Approach to School Finance in New York State

School districts in New York State do not possess equal ability to raise revenue with a local tax because of the unequal tax bases of districts.The State seeks to minimize the effects of unequal tax bases by distributing operating aid to supplement local revenues. Table 1 provides the estimated operating tax rate required by districts of selected wealth to raise the local share needed to finance educational programs of $1,700 and $2,225 per pupil in 1980-81. $1,700 is the aid ceiling in the 1980-81 operating aid formula and $2,225 was the State average expenditure in 1979-80.

Table 1 shows that districts at or below the 75th percentile of wealth require a tax rate of $12.93 per thousand to finance a $1,700 program in 1980-81 after receipt of state aid, while districts at or above the 90th percentile can do so with lower tax rates. To finance a $2,225 program with present formula aid requires poorer districts to have substantially higher tax rates than wealthier districts.

Table 1 also shows the total revenue the selected districts would receive based on the 1980-81 operating aid formula and levying the estimated 1979-80 State average operating tax rate of $18.11. While 1980-81 operating aid does reduce the fiscal disadvantage of poor districts, they raise substantially less revenue than wealthier districts with a comparable tax rates.

TABLE 1

1980-81 OPERATING TAX RATE TO SUPPORT EDUCATIONAL PROGRAMS OF $1,700 AND $2,225 PER PUPIL IN DISTRICTS OF SELECTED WEALTH, AND PROGRAM LEVELS THEY CAN SUPPORT WITH AN AVERAGE TAX RATE

Valuation Per Pupil, District Percentile	Valuation Per Pupil	1980-81 Operating Tax Rate to Support $1,700 Per Pupil	1980-81 Operating Tax Rate to Support $2,225 Per Pupil	1980-81 Revenue From 1980-81 Formula Aid and A District Tax Of 18.11 Mills
5	$ 31,226	$12.93	$29.74	$1,864
10	34,782	12.93	28.02	1,880
25	41,704	12.93	25.52	1,916
Average	69,300	12.93	20.50	2,059
75	79,571	12.93	19.52	2,112
90	119,684	11.20	15.58	2,610
95	170,442	7.86	10.94	3,447

If the disparities in fiscal ability of districts at various levels of valuation are to be reduced, it appears the State has two major choices. It must either increase State aid to poor districts entirely through increased revenues from State taxes, not including a property tax, or it must develop a system of school finance which partly neutralizes some of the advantages of property wealth through aiding poorer districts partly by sharing property tax revenues. The Expanded Tax Base Study examined three approaches to county or regional tax sharing as a means to greater equalize the tax bases of districts.

PLAN 1:
A State-Mandated Tax
Without Additional Equalized
State Aid Provided

Description of the Plan. The first expanded tax base alternative consisted of grants from the revenues of a State-mandated property tax distributed on an equal per pupil basis to school districts in the county or region where the tax was collected. The only equalized state aid provided under this plan would be operating aid under formulas of the present type. No additional state aid would be distributed. This plan, in effect would be added onto the present system of school finance in New York, except that the new tax would replace, rather than be addition to a pureiy local tax at the same rate.

A major obstacle to equalization in New York State has been the wide variation in district wealth. For 1980-81 operating aid the richest district is 48 times more wealthy than the poorest district. Variation in the average wealth of counties and regions was found to be substantially less. The average wealth of school districts in the richest county was 5.7 times greater than the average district wealth in the poorest county. The estimated average wealth of the richest State Planning Region was 2.1 times greater than average wealth of the poorest region. (Appendix 1 provides the estimated average wealth of regions and counties). The reduced variation in wealth at the county and regional levels suggested the possibility that a county or regional approach to school finance might provide greater equalization than does the present system.

Districts with wealth above the county or regional average would receive less revenue from the State-mandated tax than would be obtained with a district tax of the same millage. If Plan 1 were adopted, such districts would either have to decrease expenditures so as to prevent a tax increase or increase taxes to minimize or prevent a reduction in expenditures. Districts of below average wealth would receive more revenue from the tax than could be raised by a district tax of the same millage. These districts would be able to use the increased revenue from the tax to increase expenditures, reduce taxes, or both.

Table 2 illustrates the effects of this alternative on any county or region in the State. A district with wealth of $50,000 above the county or regional average would receive $50 less per pupil for each mill of tax from the county or regional grant than would be raised with a district tax. If the county or regional tax were 5 mills, a district with wealth of $50,000 above the average would receive $250 less per pupil than would be raised solely with a district tax.

Conversely, a district with wealth of $50,000 below the average would receive a grant which provided the district with $50 more per pupil than it could raise by a district tax. With a county or regional tax of 5 mills, this district would receive $250 more per pupil than it would raise with a district tax.

Such an approach, particularly with a mandated tax of 5 mills or more would tend to equalize the tax raising ability of districts within a county or region.

TABLE 2

THE EFFECT OF A STATE-MANDATED TAX WITH NO ADDITIONAL STATE AID ON DISTRICTS ABOVE, AT, OR BELOW THE COUNTY OR REGIONAL AVERAGE WEALTH PER PUPIL

District Wealth Compared To County Or Regional Average	Gain Or Loss Per Pupil For Each Mill Of Tax	Gain Or Loss Per Pupil With A 5 Mill Tax
+$50,000	-$50	-$250
+ 25,000	- 25	- 125
+ 10,000	- 10	- 50
Average	0	0
- 10,000	10	50
- 25,000	25	125
- 50,000	50	250

Effects of a State-mandated Tax on Selected Districts in Suffolk and Tioga Counties. To illustrate the potential effects of a 5 mill, with its receipts distributed in the counties where they are raised, selected districts in Suffolk and Tioga Counties were analyzed. Suffolk County was chosen because of the vast differences in district wealth. Tioga County was chosen because there are only small differences and because the wealth of every district is below the state average.

Table 3 shows that changes in expenditure levels or tax rates could be dramatic for districts in Suffolk County. Relatively poor districts such as Brentwood, North Babylon, East Islip, and Center Islip could increase expenditures by at least $99 per pupil with no change in the tax rate. If the districts wished to use the county grant only to reduce the tax rate, then tax decreases of $2.09 per $1,000 or more would be possible. A very rich district such as Fishers Island would have to reduce its expenditures by $3,433 per pupil to maintain its current tax rate. Even then, the district would still be able to spend over $5,000 per pupil, far above the county and State averages. To maintain its expenditure level Fishers Island would be required to have a tax increase of over 40 percent. This new tax rate would still be substantially under the county average. Due to the wide variation of district wealth in Suffolk, Plan 1 could substantially improve the revenue raising ability of poorer districts.

TABLE 3

EFFECTS OF A 5 MILL COUNTY TAX WITH NO ADDITIONAL STATE AID ON SELECTED DISTRICTS IN SUFFOLK COUNTY

District	District Full Value Per Pupil (TWPU)	1979-80 Spending Per Pupil (TAPU)[a]	1979-80 Tax Rate[b]	Change In Spending At No Change In Tax Rate[c]	Change In Tax Rates[d] At No Change In Spending
North Babylon	$ 37,020	$2,574	$34.29	$ 137.77	-$3.50
Rocky Point	68,690	2,516	30.79	- 17.57	.25
Brentwood	33,378	2,558	29.61	161.30	- 4.65
Fishers Island	742,656	8,635	11.31	- 3,433.50	4.55
East Islip	44,927	2,602	29.62	98.56	- 2.10
Huntington	82,252	3,162	29.43	- 102.55	1.20
Center Islip	38,081	2,633	33.27	134.52	- 3.35

[a]1979-80 Approved Operating Expenditure divided by 1979 Total Aidable Pupil Units
[b]1979-80 property levy divided by 1978 full value
[c]Estimated gain or loss in revenue per payment TAPU
[d]Estimated gain or loss in revenue divided by 1978 full value

Table 4 shows that in a poor county such as Tioga where there is little variation in district wealth such as Tioga the changes in expenditure levels and tax rates would be considerably more modest. The only district to lose revenue under this plan, Owego, would have to reduce its expenditures by $26 per pupil to maintain the same tax rate. The largest increase in per pupil expenditures at no change in tax rate would be $43 in Spencer. Only one district would be able to spend more than $1,700 per pupil at its present tax rate. The largest tax decrease with the same expenditure level would be $1.22 per thousand in Candor. In Tioga County this plan, therefore, would tend more to equalize the poverty rather than the wealth of districts.

TABLE 4

EFFECTS OF A 5 MILL COUNTY TAX WITH NO ADDITIONAL STATE AID ON SELECTED DISTRICTS IN TIOGA COUNTY

District	District Full Value Per Pupil (TWPU)	1979-80 Spending Per Pupil (TAPU)[a]	1979-80 Tax Rate[b]	Change In Spending At No Change In Tax Rate[c]	Change In Tax Rates[d] At No Change In Spending
Waverly[e]	$35,836	$1,652	$12.99	$25	-$ .67
Candor[e]	30,931	1,334	12.71	39	- 1.22
Newark Valley	36,239	1,409	11.53	9	- .25
Owego	42,843	1,769	15.33	- 26	+ .58
Spencer[e]	36,509	1,453	12.62	43	- 1.17
Tioga	31,430	1,644	17.84	33	- 1.02

[a]1979-80 Approved Operating Expenditure divided by 1979 Total Aidable Pupil Units
[b]1979 property levy divided by 1978 full value
[c]Estimated gain or loss in revenue per payment TAPU
[d]Estimated gain or loss in revenue divided by 1978 full value
[e]District is geographically in more than one county and would receive aid from both counties

Statewide Effects. In the state as a whole under such a plan, 307 districts would realize less revenues from a county grant than they could raise with a district tax of the same rate in 1980-81. With a regional distribution 290 districts would receive less revenue than would be raised with a district tax. The use of either approach would result in at least 41 percent of the districts in the State being required to choose between lowering expenditures or imposing a tax increase.

The lack of equalized state aid specifically associated with this plan would prevent major improvements in statewide equalization from occuring. In effect, the state would support a different expenditure level in each county.

Summary of Effects. Plan 1 would promote equalization at the county or regional level. For effective equalization of district tax bases to occur, a tax of several mills would be required.

A major drawback would be the lack of statewide equalization which would occur under this plan. The gain or loss in revenue for a district from such a tax would be largely a geographic accident. For example, the richest district in Tioga County would lose revenue under Plan 1 even though districts with the exact same wealth would gain revenue in virtually every other county in the State. If this approach were implemented, the lack of equalized state aid would result in the State guaranteeing a different expenditure level in each county.

If this alternative were implemented, at least 41 percent of all districts in the State would be required to either raise the tax rate or decrease expenditures.

Plan 1 might well be viewed as a new tax even though it more properly is a replacement of one tax with another. A State-mandated tax might be opposed even by districts that would gain under the proposal because of their concern over the possibility of higher taxes in the future.

In the hope of creating a more acceptable alternative, two other approaches involving the partial financing of schools with a State-mandated tax were studied. In the next section, the replacement of the present system of taxation and aid by a State-mandated tax supplemented with state aid is examined.

PLAN 2:
Financing a Statewide Foundation Program
From Countywide Property Taxes
Equalized by the State
On a County Basis

Description of the Plan. The second alternative studied was a uniform foundation program supported by state aid and by the receipts of a uniform State-mandated property tax. All revenue raised from the tax in a county would be distributed within the county. State aid would be based on county wealth and would be uniform throughout each county.

Under such a plan, unlike the county tax plan previously discussed, districts throughout the State would be aided at the uniform statewide foundation level based on the county valuation per pupil. Thus, all districts could spend at the foundation level at the State formula tax rate. Instead of purely local school property taxes, a uniform property tax would be imposed to support, in combination with formula aid, the foundation level of expenditures throughout the state except that in a very wealthy county the tax might raise enough to support a level of expenditure higher than the foundation level.

The foundation level was devised to result in exactly the same cost to the State as present law. Any expenditures above the foundation level would be at local option supported by a district tax, but expenditures at the foundation level would be wholly supported by the county receipts of the tax as supplemented by state aid.

The substitution of a State-mandated tax for local district taxes of a given level and basing state aid on county rather than district wealth would result in a redistribution of the revenue used to support schools. The foundation level was set to result in no increase in state aid. The same pupil counts, weightings, wealth measures, etc. used were the same as in present law.

The calculations were done in this manner to show the pure effect of this change. It would be possible to calculate the effects of variation of such plans using revised pupil counts and weightings, different basic formulas, regional price adjustments, corrections for income, etc., etc. However, the purpose of this study was to show the effect of changing only the method by which are distributed the property tax revenues and state aid needed to support the foundation program in every county with the same tax rate. The tax rate used in these calculations was the same local tax rate implicit in the present formula, with which tax rate any district can now, with state aid, support an expenditure of $1,700 per pupil.[a]

The general form of the formula used by the Study was as follows.

$$\text{Aid to County} = \left(\begin{array}{c}\text{Cost of the State Supported} \\ \text{Program}\end{array}\right) - \left(\begin{array}{c}\text{Yield of the State} \\ \text{Tax in that County}\end{array}\right)$$

$$\text{Aid to County} = \left(\begin{array}{c}\text{Supported} \\ \text{Level}\end{array} \times \begin{array}{c}\text{County} \\ \text{Pupil Count}\end{array}\right) - \left(\begin{array}{c}\text{County} \\ \text{Full Value}\end{array} \times \begin{array}{c}\text{Tax} \\ \text{Rate}\end{array}\right)$$

The specific formula was based on a State supported level of $1,829 per pupil and a tax rate of $12.93 per thousand:

$$\text{Aid to County} = \left(\$1{,}829 \times \begin{array}{c}\text{County} \\ \text{TAPU}\end{array}\right) - \left(\begin{array}{c}\text{County} \\ \text{Full Value}\end{array} \times .01293\right)$$

After receiving the full cost of the State supported program from the combined revenues of the tax in the county and state aid, each school district could then raise a local school tax at any level it wished in order to support additional expenditures above the State supported level.[b]

This is not a new idea. It was recommended by the Educational Finance Inquiry Commission in the so-called Strayer-Haig Report of 1923. Under that recommendation, as with this plan, state aid to each county was the amount needed to supplement the receipts of a uniform countywide tax so as to provide the same number of dollars per pupil to each county, which amount would then be distributed to all school districts in the county.

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[a]Districts receiving flat grant or save harmless aid can support expenditures above $1,700 per pupil at this tax rate, depending on the amounts of such aid they receive. Districts whose 1980-81 aid is limited due to the 13 percent maximum increase require a higher tax rate than $12.93 to support a $1,700 program, depending on the amount by which their aid is reduced as a result of the limit.

[b]The Study could have used a percentage equalizing formula smilar to present law. The use of a foundation formula allowed comparison between Plan 2 and present law with no change in tax rate implicit in the 1980-81 operating aid formula.

Statewide Effects. The expenditure level which could be supported under this plan is $1,829 per pupil rather than the $1,700 per pupil supported at the same State cost under present law, an increase of 7.6 percent in the foundation level or ceiling. This is because the plan would make available for equalization purposes $402 million more than does the present law. The $402 million would come from the elimination of flat grants and save harmless provisions of present law and the increased tax rates required in some districts.

In addition to enabling the support of a 7.6 percent higher foundation level at the same State cost, the plan would lower the tax rates required to support an $1,829 program in 87 percent of districts and increase the tax rates to do so in 13 percent. This is because the receipts of the first $12.93 of full value tax on the property in any school district would go toward supporting schools throughout the county rather than only toward the support of the schools in the district where the taxpaying property is located. When this distribution is combined with state aid from the formula, districts with wealth below $112,300 per pupil, the 77th percentile, would gain in net receipts.

One worthwhile feature of Plan 2 is that it would not be necessary to circulate computer runs informing districts of their estimated operating aid. The local calculation of aid would be done in two steps: (1) determine the number of weighted pupils; (2) multiply this figure by $1,829. That's your total aid under Plan 2.

Appendix 1 shows that aid per pupil to each county as a result of the application of the formula to the receipts of the tax in the county. The last column also shows such aid per pupil to each region if a regional formula were adopted.

With a regional the aid formula, aid per pupil would vary from $697 in the Mid-Hudson region to $1,279 in the Black River-St. Lawrence region, a variation of 88.3 percent.

With a county formula, aid per pupil would vary from zero in Hamilton County to $1,318 in Tioga. The second richest county, Westchester, would receive $380 per pupil. The variation between Tioga and Westchester would be 246.8 percent. Hamilton County with a full value per TAPU of $225,958 would not receive any formula aid under this plan. However, all districts in the county would receive revenue of $2,921 per pupil with a tax rate of $12.93.

Since the average full value school tax in the state in 1980-81 is about $21.80, this would mean that roughly 59 percent of present school taxes in the State would be shared under such a plan. The remaining revenues would be used only in the district where the taxable property is located.

Of course, variations of the plan could be devised to establish any desired level of sharing. This plan was used to illustrate the principle simply because $1,829 is the foundation level that could be supported at the same cost to the state as present law and the same local district tax rate, $12.93 per thousand, at which the present formula supports $1,700 per pupil. The effect of the plan on districts at various wealth levels is shown in Table 5.

TABLE 5

EFFECT OF REVISING 1980-81 OPERATING AID
BASED ON PLAN 2, A COUNTY EQUALIZED FOUNDATION PROGRAM FORMULA,
COMPARED WITH PRESENT LAW

(1) Valuation Per Pupil, District Percentile	(2) Valuation Per Pupil	(3) 1980-81 Local Operating Tax Rate To Support $1,700 Per Pupil[a]	(4) 1980-81 Local Operating Tax Rate To Support $1,829 Per Pupil Under Present Law	(5) 1980-81 Operating Tax Rate To Support $1,829 Per Pupil Under Plan 2[b]	(6) Change In Tax Rate (Col.5-Col.4)
5	$ 31,226	$12.93	$17.07	$12.93	-4.14
10	34,782	12.93	16.64	12.93	-3.71
25	41,704	12.93	16.02	12.93	-3.09
Average	69,300	12.93	14.79	12.93	-1.86
75	79,571	12.93	14.55	12.93	-1.62
90	119,684	11.20	12.27	12.93	+ .66
95	170,442	7.86	8.61	12.93	+4.32

Read the table as follows: A district at the 10th percentile has valuation of $34,782 per pupil. Under present law it can support a program of $1,700 per pupil with an operating tax rate of $12.93 per thousand and a program of $1,829 per pupil with $16.64. Under Plan 2 it could provide $1,829 per pupil for $12.93, $3.71 less than its present tax rate for a $1,829 program.

[a]Based on formula aid. Districts now receiving Save Harmless require lower tax rates than those shown here and those whose aid is limited require higher tax rates.

[b]Under this plan this tax is required by the State.

Summary of Effects

Under this type of plan the revenues derived from the State mandated tax rate would be shared throughout the counties where the taxed property is located. At the level studied, the plan would have a strong effect on reducing the tax advantages of districts with high valuations per pupil and reducing the disadvantages of districts with valuation per pupil below the 77th percentile.

At the same cost to the State as the present formula, this plan would make available for equalization about $402 million more than is presently available. It would permit support of an $1,829 ceiling, 7.6 percent higher than now supported, at the same local tax rate at which the present formula now supports a $1,700 program. It would reduce the difference between tax rates needed by the 10th and 90th percentile districts in order to support an $1,829 per pupil program from 35.6 percent to zero.

However, the new $1,829 ceiling would still be far below the State average 1979-80 expenditure of $2,225 per pupil. For an additional eight hundred million dollars a year, this plan could support throughout the State an expenditure level of about $2,225 at a $15 tax rate.[a] The foundation level of $2,225 is higher than could be supported at the same cost to the State with the same tax rate under a similar plan based on present law but not sharing tax receipts countywide.

The feature of this type of plan which gives it such great potential for narrowing expenditure disparities may also be its greatest political liability. It would increase taxes in districts whose wealth is above the [illegible]ercentile and in other districts with operating tax rates lower than $12.93 per [illegible]ousand. Under the present plan wealthy districts enjoy the benefits of their higher valuation for all of the tax revenues derived from property located there. Under a plan based on equalizing up to the ceiling or foundation program level by county they would enjoy the advantage of their high valuation only for taxes above the formula level. Tax revenues up to that level would be shared.

If such a plan were established with a State-supported level approximating the state average or median expenditure, it might be a feasible and constitutional response to a court order requiring substantial equalization of expenditures and tax rates. It would, however, allow continuation of some of the disparities which exist under present law.

PLAN 3:
A School Finance System Based on
a State Mandated, County Shared
Tax at Half the Level in Plan Two,
Combined With Aid at Half the Level
in Present Law

Description of the Plan. The final alternative considered was a combination of Plan 2 and present law 1980-81 operating aid. This alternative consisted of a plan whereby each district would receive half of its 1980-81 operating aid including flat grants and save harmless plus a State equalized county grant of $914 per pupil based on a tax rate of 6.465 mills. Each of these latter two amounts is 50 percent of its level in Plan 2. The total cost to the State would remain the same as in present law but would be equally divided between operating aid at half the present level and county formula aid at half the level in Plan 2.

Plan 3 was developed as an exact "middle ground" compromise between Plan 2 and present law to illustrate that such a compromise would be possible at any level.

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[a]See Appendix 2 which illustrates the potential effects of an $800 million increase in state aid to Plan 2.

Statewide Effects. As shown in Table 6 , the expenditure level supported by this alternative would be $1,764 per pupil as compared to the $1,700 per pupil supported by present law or the $1,829 per pupil supported by Plan 2. The increase in the State supported level above the $1,700 level in present law would be half that under Plan 2 because half as much county tax sharing would occur.

This plan in 1980-81 would have provided a 3.8 percent increase in the foundation or "ceiling" that is supported by the State under present law. The plan would have provided approximately $201 million more for equalization than does present law, half the additional amount provided by Plan 2. The extra revenue comes from a reduction of 50 percent in flat grant and save harmless provisions of present law and the fact that the plan would lower the tax rate required to support a $1,764 program in poorer districts and increase the tax rate in wealthier districts. Districts above the 87th percentile would have to increase tax rates under this plan. The changes in tax rates would be half of those provided by Plan 2. Since the average full value school tax rate in 1979-80 was $21.80, approximately 29.6 percent of school taxes would be shared under this plan. The other 70.4 percent would be used only in the district in which the taxable property is located.

Since the districts in Hamilton county have an average full valuation per TAPU of $225,958, they would receive half their present aid under present law, but no aid under the county formula. Districts there would have $1,460.81 per pupil available from the proceeds of the $6.465 tax in the county. Their individual expenditure levels and tax rates would vary depending on state aid levels and local choice.

Summary of Effects. Districts under this plan would continue to choose the actual expenditure level to be supported. However, for the district at the 5th percentile of wealth, its tax rate would be $2.06 less while the district at the 95th percentile would have to increase the tax rate by $2.16 per thousand, as compared to their tax rates to support programs above the ceiling level under the present system. The higher tax rate might tend to curb increased expenditures in the wealthiest 13 percent of districts, although not to the degree of Plan 2.

The $1,764 ceiling is below the 1979-80 State average expenditure of $2,225. Although the fiscal disadvantages of poorer districts would be reduced, under this plan they would not be eliminated. The reduction in the fiscal disadvantages of poorer districts would be approximately half of Plan 2.

If the principle of expanding the geographic base upon which part of the school is levied were adopted, it would be simple to design a plan with a State-mandated tax combined with any percentage of operating aid desired. Such plans could also be used as intermediate steps in phasing in Plan 2.

TABLE 6

EFFECT OF REVISING 1980-81 OPERATING AID
BASED ON PLAN 3[a]
COMPARED WITH PRESENT LAW

(1) Valuation Per Pupil, District Percentile	(2) Valuation Per Pupil	(3) 1980-81 Local Operating Tax Rate To Support $1,700 Per Pupil[b]	(4) 1980-81 Local Operating Tax Rate To Support $1,764 Per Pupil Under Present Law	(5) 1980-81 Local Operating Tax Rate To Support $1,764 Per Pupil Under Plan 3[c]	(6) Change In Tax Rate (Col.5-Col.4)
5	$ 31,226	$12.93	$14.99	$12.93	-$2.06
10	34,782	12.93	14.77	12.93	- 1.84
25	41,704	12.93	14.46	12.93	- 1.53
Average	69,300	12.93	13.85	12.93	- .92
75	79,571	12.93	13.73	12.93	- .80
90	119,684	11.20	11.73	12.06	+ .33
95	170,442	7.86	8.24	10.40	+ 2.16

Read the table as follows: A district at the 10th percentile has valuation of $34,782 per pupil. Under present law it can support a program of $1,700 per pupil with an operating tax rate of $12.93 per thousand and a program of $1,764 per pupil with $14.99. Under this plan it could provide $1,764 per pupil for $12.93, $1.84 less than its present tax rate for a $1,764 program.

[a] This table is based on all districts receiving half their aid under present law. The remaining aid is distributed by the State on the basis of county wealth rather than district wealth, so that the county yield of a full value tax rate of $6.465, together with this state aid, is distributed on an equal per pupil basis in each county.

[b] Districts now receiving Save Harmless require lower tax rates than those shown here. Districts whose aid is limited would require higher tax rates.

[c] Includes the portion of the tax collected countywide.

As with the Plan 2 the feature which of Plan 3 provides the potential for narrowing expenditure discrepancies is also the greatest political liability. It would be unpopular in wealthy districts which would lose part of their wealth advantage. Under this plan such districts would enjoy the advantage of their high valuation only after the formula tax had been imposed. However, the loss in revenue raising capacity of districts would be only half as great as would occur under the Plan 2.

If state aid were increased by $1 billion, this plan could support a program of approximately $2,135 with a tax rate of $7.50 each at the county and district levels for a total tax rate of $15 per thousand in districts of wealth below the 77th percentile. Above that wealth level, the total rate to support $2,135 per pupil would be lower.

The Effect of Plans 1, 2, and 3 on City School Districts With A Projected Tax Limit Problem in 1980-81

One of the more difficult problems to resolve in recent years has been the inability of certain city school districts to finance an adequate educational program while observing the Constitutional Tax Limit. The Hurd Decision of 1978 ruled unconstitutional the law which had exempted fom a district's tax limit taxes raised in order to pay State mandated fringe benefit costs. Since 1978 the Legislature has authorized loans, the use of special equalization ratios for computational purposes and special grants of state aid to prevent the major cutbacks in educational programs, which otherwise would have been necessary for some districts to comply with their limits.

If a county or regional school tax sharing plan were adopted, the shared tax would be a State tax and therefore not subject to the Constitutional Tax Limit. The Study calculated the tax rates needed to support the tentative expenditures of districts with a projected 1980-81 tax limit problem under present law, and Plans 2 and Plan 3.

In the spring of 1980, city school districts submitted estimates to the State Education Department concerning 1980-81 expenditures. Table 7, column (3), shows that the tax rates required by seventeen districts to finance their tentative expenditures would have exceeded their constitutional tax limits by amounts ranging from $0.26 (Kingston) to $9.26 (Peekskill).

Plan 1, despite its other weaknesses described previously, would have provided some relief from the tax limit problem to all the districts since the State mandated tax would not be subject to the constitutional tax limit.

However, since some of the city school districts are above their respective county or regional averages in valuation per pupil, they would not have received as much revenue from the county or region under Plan 1 as they would have with a tax of the same rate at the district level. Eight districts (Auburn, Glen Cove, Hudson, Lackawanna, Middletown, Niagara Falls, Oneonta, Plattsburgh and Rensselaer) were above their county average while six districts (Glen Cove, Hudson, Lackawanna, Long Beach, Niagara Falls and Oneonta) were above the regional average.

TABLE 7

EFFECT OF PLANS TWO AND THREE ON SEVENTEEN CITY DISTRICTS
WITH A PROJECTED TAX LIMITATION PROBLEM IN 1980-81

(1) District	(2) Tax Limit[a]	(3) Tax Rate By Which District Would Have Needed To Exceed The Tax Limit To Finance 1980-81 Estimated Expenditures[b]	(4) Local Tax Rate Subject To The Limit To Finance Estimated Expenditures Under Plan 2 ($1,829 Ceiling)[c]	(5) Constitutional Tax Rate Leeway Under Plan 2 (Col.2 - Col.4)	(6) Local Tax Rate To Finance Estimated Expenditures Under Plan 3 ($1,764 Ceiling)[c]	(7) Constitutional Tax Rate Leeway Under Plan 3 (Col.2 - Col.6)
Auburn	$12.50	$3.34	$ 3.99	$ 8.51	$ 9.92	$2.58
Fulton	12.50	.81	1.88	10.62	7.56	4.94
Glen Cove	17.50	1.96	9.30	8.20	14.39	3.11
Hudson	12.50	1.97	3.77	8.73	9.12	3.38
Kingston	17.50	.26	5.95	11.55	11.73	5.77
Lackawanna	12.50	4.61	1.26	11.24	11.15	1.35
Long Beach	20.00	3.80	11.22	8.78	17.51	2.49
Middletown	12.50	2.15	1.82	10.68	8.24	4.26
Mount Vernon	20.00	5.63	12.57	7.43	18.70	1.30
Newburgh	17.50	4.84	10.47	7.03	16.41	1.09
Niagara Falls	12.50	.28	3.03	9.47	7.91	4.59
Oneonta	15.00	1.34	3.03	11.97	9.15	5.85
Peekskill	20.00	9.29	15.46	4.54	22.39	- 2.39
Plattsburgh	12.50	1.59	5.62	6.88	8.60	3.90
Poughkeepsie	15.00	3.45	6.29	8.71	12.37	2.63
Rensselaer	12.50	8.07	6.81	5.69	13.69	- 1.69
Tonawanda	12.50	1.73	2.49	10.01	8.37	4.13

[a]Expressed in dollars: i.e., 1.5% = $15.00 per thousand

[b]Based on five-year average of full value used to determine the tax limit.

[c]Based on five-year average of full value used to determine the tax limit; does not include the State-mandated tax.

Plan two would have had a much more salutary effect. It would have provided aid increases for all of the cities in question and would in addition have enabled all of them to budget at their estimated levels well within their respective constitutional tax limits, as shown in column (5) of Table 7. This could have been accomplished, it should be noted, at no increase in state aid costs and without any additional special appropriation. Twenty-three million dollars of such special aid was appropriated for twenty-two cities by the 1980 legislature.

Table 7, column (5) shows that all of the seventeen city districts would have had a comfortable tax margin under Plan two. For example, Peekskill, the district that would have had the greatest problem under its estimates, would have had a tax margin of $4.54 per thousand. That is, it could have taxed at a five year average full value rate of $4.54 per thousand higher than the estimate and still have been within its limit.

Plan 3 which combined the present system of school finance with a county formula with a State-mandated tax rate of $6.465 per thousand, would have enabled all but two of the city districts, Peekskill and Rensselaer, to support their estimated budgets within their tax limits. As shown in column (7) of Table 7, these districts would have required tax rates of $2.39 and $1.19, respectively, above the tax limit to finance their tentative 1980-81 expenditures. In order to enable these two cities to have supported their estimated budgets within their tax limits, the plan would have to include a State-mandated tax rate of about $8.85 per thousand or more.

Thus, plans 2 and 3 appear to be a constitutional method of eliminating or reducing the problem of city school districts now in danger of being unable to support educational programs without exceeding the tax limit.

SUMMARY AND CONCLUSION

The partial financing of schools with a State-mandated tax and state aid based upon county or regional wealth would provide greater equalization of both the revenue raising abilities and the expenditures of school districts than does present law, or than would a comparable increase in state aid appropriations under district formulas of the present type.

None of the alternatives studied would completely eliminate the fiscal disadvantages of poorer districts. However, they are appropriate responses to a court decision that would permit of a solution which would reduce disparities by half or less. The greatest equalization would occur under Plan two, which would provide a statewide foundation program based on a state mandated property tax.

Disadvantages:

The plans studied possess some disadvantages which should not be minimized:

1. Tax rates would increase or expenditures decrease in the wealthier districts. In plans two and three, this would occur in districts above the 87th percentile of wealth, that is, in the 13 percent of school districts with the greatest wealth. About 5 percent of the pupils of the State reside in these districts. Tax rates would also increase in some non-wealthy districts with tax rates below the State-mandated rate. (In these districts, the higher taxes would be accompanied by substantially higher school revenues.)

2. Some districts that are on flat grant or save harmless might oppose changing the present system since this would involve the loss of state aid.

3. The replacement of the present system by the new approach might be seen by some as so drastic that its adoption could be contingent on a strong court ruling.

4. A State-mandated tax might be opposed since it would be considered a "new" tax with all of its implications.

5. If the plan were established in such a way that the counties actually collected the tax and distributed the aid (a method of administration that could, if desired, easily be avoided) county governments might consider the collection and distribution of the tax as an onerous duty imposed by the State and with which they were not instrumental in determining the rate or distribution pattern.

Advantages

1. Under all of the plans, part of the tax on all of the taxable property in a county or region would be used to support the cost of schools throughout the county or region.

2. All of the plans would provide a given degree of equalization at a lower cost to the State than would plans not involving an expanded tax base.

3. Implementation of Plan 2 in 1980-81 would have totally eliminated the tax limitation problems of city school districts. Plan 3 would have greatly reduced such problems.

4. Plan two would be easy to administer. The need for complex computer runs for operating aid would be eliminated.

5. The disequalizing effects of save harmless, flat grants, or limitations on increases in state aid would be reduced or eliminated.

6. Local control over educational programs would be preserved. Districts could choose an expenditure level greater than the ceiling. Wealthy districts would continue to enjoy a fiscal advantage, although the advantage would be reduced.

7. The need for a possible expenditure cap would be lessened or eliminated, particularly under Plan two.

8. The plans studied could be easily adapted to reflect possible Task Force recommendations concerning revised pupil counts, weightings, use of income, regional price adjustments, and so on.

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APPENDIX 1

1978 AVERAGE FULL VALUE PER TOTAL AIDABLE PUPIL UNIT FOR STATE PLANNING REGIONS AND COUNTIES, WITH THE WEALTH OF THE RICHEST AND POOREST DISTRICTS IN REGIONS AND COUNTIES, AND STATE FORMULA AID UNDER PLAN TWO

Region and County	1978 Full Value Per TAPU Average[a]	Richest District In Region Or County[b]	Poorest District In Region Or County[b]	State Aid Per TAPU Under Plan Two[c]
New York City	$ 81,764			$ 772
NASSAU-SUFFOLK	79,579	$742,656	$ 33,378	800
Nassau	95,067	184,159	39,819	600
Suffolk	67,179	742,656	33,378	960
MID-HUDSON	88,905	455,334	45,556	679
Dutchess	68,051	114,937	54,440	949
Orange	66,688	210,933	45,556	967
Putnam	77,334	121,980	62,456	829
Rockland	81,908	114,992	64,144	770
Sullivan	94,664	170,789	75,880	605
Ulster	70,468	218,080	49,681	918
Westchester	112,059	455,334	47,757	380
UPPER-HUDSON	61,416	263,942	36,132	1,035
Albany	78,435	263,942	30,221	815
Columbia	74,037	92,535	48,193	872
Fulton	46,298	123,553	36,132	1,230
Greene	92,380	225,129	59,107	635
Montgomery	46,297	96,195	36,132	1,230
Rensselaer	45,244	60,122	36,768	1,244
Saratoga	48,135	70,817	36,465	1,207
Schenectady	65,506	96,195	43,352	982
Schoharie	59,449	146,632	42,833	1,060
LAKE GEORGE-CHAMPLAIN	58,793	272,649	24,696	1,068
Clinton	41,705	97,131	25,751	1,298
Essex	82,701	257,302	24,696	760
Hamilton	225,958	272,649	196,885	0
Warren	70,310	152,603	24,696	920
Washington	41,765	123,995	30,221	1,289
BLACK RIVER-ST. LAWRENCE	42,507	140,303	15,303	1,279
Franklin	42,545	97,131	15,303	1,279
Jefferson	43,250	95,822	24,197	1,270
Lewis	41,805	41,199	25,287	1,288
St. Lawrence	42,093	140,303	15,303	1,285

TABLE 1 (CONTD)

Region and County	1978 Full Value Per TAPU Average[a]	Richest District In Region Or County[b]	Poorest District In Region Or County[b]	State Aid Per TAPU Under Plan Two[c]
UPPER-MOHAWK	$ 44,146	$258,308	$ 24,232	$1,258
Herkimer	47,091	258,308	25,371	1,220
Oneida	43,302	77,518	24,232	1,269
CENTRAL	53,782	151,513	24,250	1,134
Cayuga	42,172	51,660	29,283	1,284
Cortland	52,285	57,128	39,471	1,153
Madison	41,583	62,441	24,689	1,288
Onondaga	56,258	102,378	33,848	1,102
Oswego	60,541	151,513	24,250	1,046
SOUTHERN TIER EAST	54,711	228,693	25,865	1,122
Broome	50,857	96,827	25,865	1,171
Chenango	43,683	96,827	32,666	1,264
Delaware	78,508	228,693	42,697	814
Otsego	58,156	74,802	42,697	1,077
Tioga	39,517	42,843	30,931	1,318
Tompkins	67,838	104,789	30,931	952
SOUTHERN TIER CENTRAL	49,839	82,437	25,453	1,220
Chemung	52,503	59,350	36,281	1,150
Schuyler	47,790	45,764	36,281	1,211
Steuben	47,871	82,437	25,453	1,210
SOUTHERN TIER WEST	47,079	116,825	26,982	1,220
Allegany	44,598	65,519	26,982	1,252
Cattaraugus	44,457	65,519	27,217	1,254
Chautauqua	49,444	116,825	32,589	1,190
GENESEE-FINGER LAKES	59,591	92,902	31,909	1,058
Genesee	51,967	70,172	36,775	1,157
Livingston	50,763	86,833	36,850	1,173
Monroe	73,279	92,902	33,524	882
Ontario	58,937	76,548	39,774	1,067
Orleans	51,967	43,452	33,524	1,157
Seneca	49,532	61,193	38,681	1,188
Wayne	48,886	77,312	31,909	1,197
Yates	66,274	73,948	53,586	972
WESTERN	60,052	103,024	24,689	1,053
Erie	61,697	103,024	39,716	1,031
Niagara	53,831	60,245	24,689	1,133
Wyoming	58,345	51,217	36,775	1,075
STATE	72,501	742,656	15,303	

[a]TAPU for payment of 1980-81 operating aid

[b]Since some districts are located in more than one county, the same wealth figure may appear in more than one county.

[c]Aid distributed by county under Plan Three would be half of these Plan Two amounts.

APPENDIX 2

PLAN 2-A
THE EFFECTS OF PLAN 2 COMBINED WITH AN $800 MILLION INCREASE IN STATE AID, RAISING THE SUPPORTED LEVEL TO THE 1979-80 STATE AVERAGE

The report found that the fiscal advantages of rich districts and disadvantages of poorer districts would be lessened under Plans 2 and 3. To illustrate the equalization possible under Plan 2, this appendix shows the effects of increasing state aid under Plan 2 by an estimated $800 million. The $800 million increase in state aid would support an expenditure level of $2,225 per pupil, the 1980-81 State average, with a tax rate of $15 per thousand.[a] For convenience, we will refer to this as Plan 2-A.

This appendix provides information about Plan2-A using the same comparisons that were provided with Plans 2 and 3. Plan 2-A if it were in effect in 1980-81 would have achieved an important goal. It would have made it possible for any district to spend at the prior year State average level with the same tax rate as any other. Only above that level of spending would differences in local wealth take effect.

Table 2-A shows that the difference in the tax rates between the districts at the 5th and 95th percentiles of wealth to support expenditures of $2,225 per pupil would have declined from $18.80 per thousand under present law no difference in tax rates under Plan 2A.

Table 2-B provides the percent variation in the tax rates to support expenditures of $2,225 per pupil between districts at the 5th and 95th percentiles; 10th and 90th; and 25th and 75th percentiles of wealth under Plan 2-A and the other plans studied.

Table 2-C provides the revenue the selected districts could have raised under Plan 2-A from state aid and the 1979-80 State average tax rate of $18.11 per thousand. The table shows that some variation in revenues would have continued to exist. However, the revenue gap between districts of different wealth would be less than under present law. The district at the 95th percentile of wealth can raise $1,583 more than the district at the 5th percentile from state aid and a tax rate of $18.11 per thousand under present law. However, Plan 2 would have reduced this difference in revenues to $433. Of course, actual differences in expenditures would be greater than $433 because districts would be free to set their operating tax rates at higher levels than $18.11, which was the 1979-80 State average.

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[a]The expenditure level supported under variations of Plan 2 depends on the amount of state aid and the rate of the State-mandated tax. If a tax rate of less than $15 per thousand were desired, then the expenditure level supported by this plan would be lower. With a higher tax rate it would be higher. The $15 per thousand level was arbitrarily selected.

APPENDIX 2

TABLE 2-A

COMPARISON OF 1980-81 OPERATING TAX RATES NEEDED TO SUPPORT EXPENDITURES OF $2,225 PER PUPIL IN DISTRICTS AT SELECTED WEALTH LEVELS UNDER PRESENT LAW AND PLANS 2, 3 AND 2-A

Valuation Per Pupil, District Percentile	Valuation Per Pupil	Tax Rate To Support $2,225 Per Pupil, Present Law	Tax Rate To Support $2,225 Per Pupil, Plan 2	Tax Rate To Support $2,225 Per Pupil, Plan 3	Tax Rate To Support $2,225 Per Pupil Plan 2-A
5	$ 31,226	$29.74	$25.61	$27.69	$15.00
10	34,782	28.02	24.31	26.18	15.00
25	41,704	25.52	22.42	23.98	15.00
Average	69,300	20.50	18.64	19.58	15.00
75	79,571	19.52	17.90	18.72	15.00
90	119,684	15.58	16.23	15.91	15.00
95	170,442	10.94	15.25	13.10	15.00

TABLE 2-B

COMPARISON OF THE PERCENT VARIATION IN 1980-81 OPERATING TAX RATES BETWEEN DISTRICTS AT SELECTED WEALTH LEVELS, TO SUPPORT $2,225 PER PUPIL UNDER PRESENT LAW AND PLANS 2, 3 AND 2-A

Percentiles Of Wealth	Present Law	Plan 2	Plan 3	Plan 2-A
5th and 95th	171.8	67.9	111.3	0
10th and 90th	79.8	49.7	64.5	0
25th and 75th	30.7	25.2	28.0	0

APPENDIX 2

TABLE 2-C

COMPARISON OF 1980-81 REVENUE FROM STATE AID AND LEVY
WITH A TAX RATE OF 18.11 MILLS
IN DISTRICTS OF SELECTED WEALTH LEVELS
UNDER PRESENT LAW AND PLANS 2, 3 AND 2-A

Valuation Per Pupil District Percentile	Present Law	Plan 2	Plan 3	Plan 2-A
5	$1,864	$1,991	$1,927	$2,322
10	1,882	2,009	1,945	2,333
25	1,917	2,045	1,981	2,355
Average	2,059	2,188	2,123	2,441
75	2,113	2,241	2,177	2,472
90	2,527	2,449	2,488	2,597
95	3,447	2,712	3,079	2,755

TABLE 2-D

PERCENT VARIATION IN 1980-81 REVENUES, FROM STATE AID
AND A TAX RATE OF 18.11 MILLS, BETWEEN DISTRICTS
AT SELECTED WEALTH LEVELS
UNDER PRESENT LAW AND PLANS 2, 3 AND 2-A

Percentiles Of Wealth	Present Law	Plan 2	Plan 3	Plan 2-A
5th and 95th	84.9	36.2	59.7	18.6
10th and 90th	34.2	21.9	27.9	11.3
25th and 75th	10.2	9.5	9.8	4.9

Table 2-D compares the percent variation in 1980-81 revenue that have existed for the selected districts from state aid and a total operating tax rate of $18.11 per thousand. The variation between the districts at the 5th and 95th percentiles of wealth would be reduced from 84.9 to 18.6 percent.

With Plan 2-A, just as is the case for Plans 2 and 3, the same results could be achieved for below average wealth districts, although at a higher cost in State formula aid, by raising the present ceiling to $2,225. What Expanded Tax Base Plans would achieve in addition to the accomplishments of a simple ceiling increase would be lessen the opportunity of wealthy districts to spend at such relatively high levels as they could under such a plan because of tax base sharing.